

Message Text

CONFIDENTIAL

PAGE 01 CAIRO 16196 01 OF 05 010748Z
ACTION NEA-11

INFO OCT-01 ISO-00 EB-08 INR-10 L-03 PM-05 SS-15 SP-02
/055 W

-----126002 010954Z /14

R 301658Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0985

C O N F I D E N T I A L SECTION 01 OF 05 CAIRO 16196

STADIS////////////////////////////////////

E.O. 11652: GDS
TAGS: EGEN, EG
SUBJ: THE EGYPTIAN ECONOMIC SCENE - A RECAPITULATION AND
- ASSESSMENT

1. THE FOLLOWING PARAGRAPHS CONTAIN A SURVEY OF THE
ECONOMY'S COURSE IN RECENT TIMES, AN ASSESSMENT OF THE
CURRENT ECONOMIC SCENE AND EGYPT'S SHORT-TERM PROSPECTS
AS VIEWED HERE AT MID YEAR. THE PIECE IS LONG ON CONTEM-
PORARY HISTORY, BUT THIS MAY BE OF USE TO THE READER WHO
HAS COME TO EGYPTIAN AFFAIRS COMPARATIVELY RECENTLY;
OTHERS, PLEASE SKIM. WE CONCLUDE, GIVEN VARIOUS NECESSARY
CAUTIONARY NOTES AND CAVEATS, THAT THE FINANCIAL CRISIS
HAS PASSED, THAT PROSPECTS ARE REASONABLY BRIGHT IF LARGE-
SCALE OUTSIDE ASSISTANCE, ESPECIALLY FROM GODE, IS CONTIN-
UED AND THAT EGYPT HAS ENTERED A PERIOD DURING WHICH
DEVELOPMENT--NOT ECONOMIC SURVIVAL--WILL BE THE PRIME
CONSIDERATION. THE U.S. GOVERNMENT THEREFORE SHOULD BE
PREPARED TO ADDRESS QUESTIONS OF OUR INVOLVEMENT IN EGYPT
FROM MORE OF AN ECONOMIC DEVELOPMENT, AS
CONTRASTED WITH AN OVERWHELMINGLY POLITICAL, PERSPECTIVE.

2. WITH THE EGYPTIAN DELEGATION RETURNED TO CAIRO FROM ITS
OUTING AT PARIS FOR THE IBRD-SPONSORED CONSULTATIVE GROUP
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 16196 01 OF 05 010748Z

MEETING, AND WITH 1978 ONE-HALF OVER, NOW IS AN APPROPRIATE
TIME TO TAKE STOCK OF EGYPT'S ECONOMIC POSITION AND TO
ASSESS BRIEFLY THE PROSPECTS OVER THE COMING YEAR.
COMPLETE INFORMATION IS NOT AVAILABLE ON THE CURRENT
SITUATION, OF COURSE, AND SEVERAL IMPORTANT IMPONDERABLES
ARE INVOLVED IN FORECASTING, BUT IN GENERAL EGYPT--AND ITS
SUPPORTERS AMONG NONCOMMUNIST NATIONS--CAN TAKE SATISFAC-

TION IN THE NATION'S SOMEWHAT MORE OPTIMISTIC PROSPECTS AND THE VASTLY IMPROVED STATE OF AFFAIRS AT PRESENT WHEN COMPARED WITH THAT OBTAINING ONLY A YEAR OR SO AGO. NO CIVIL DISTURBANCES LOOM IN THE RECENT PAST, AS WAS THE CASE IN MID-1977; EXTERNAL OBLIGATIONS ARE BEING MET, MORE OR LESS ON TIME; GROWTH RATES ARE UP, TO A COMMENDABLE EIGHT PER CENT PLUS; AND THERE IS A STRONG LIKELIHOOD OF CONTINUED FOREIGN ASSISTANCE ON A LARGE SCALE, AT LEAST OVER THE NEXT YEAR OR TWO. FURTHER, CERTAIN FOREIGN EXCHANGE-EARNING SECTORS OF THE ECONOMY ARE PERFORMING REMARKABLY WELL--BETTER THAN COULD REASONABLY HAVE BEEN PREDICTED LAST YEAR IN THE GLOOMY AFTERMATH OF THE JANUARY RIOTS. ALL IN ALL, EVEN GIVEN THE SEVERAL CAUTIONARY NOTES AND CAVEATS CITED BELOW, THE EGYPTIAN ECONOMY, UNDERPINNED TO BE SURE BY MASSIVE FOREIGN ASSISTANCE, IN MID-1978 IS ALIVE AND REASONABLY WELL AGAIN AFTER A PERIOD OF NIGHTMARISH DIFFICULTIES FOR THE RESPONSIBLE ECONOMIC POLICY MAKERS.

3. AS ALL EGYPT WATCHERS WILL RECOGNIZE, THE PROBLEMS WHICH CULMINATED WITH A NEAR-BREAKDOWN IN THE COUNTRY'S INTERNATIONAL CREDITWORTHINESS, AND IN MASSIVE, IF SHORT-LIVED URBAN VIOLENCE, WERE A RESULT OF THE ADOPTION IN 1973-74 OF A FUNDAMENTAL CHANGE IN ECONOMIC POLICY. THE OPEN DOOR, FORMALLY ADOPTED AS THE FUTURE DIRECTION OF THE ECONOMY THROUGH NATIONAL PLEBISCITE IN THE SPRING OF 1974, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 16196 01 OF 05 010748Z

LIBERALIZED EGYPTIAN INVESTMENT POLICIES, HERETOFORE LARGELY CLOSED OFF BY NASSERIST SOCIALIST DICTA WHICH HAD BECOME INSTITUTIONALIZED DURING THE PREVIOUS 15 YEARS. THE OPEN DOOR ALSO LOOSENED THE CLAMPS ON FOREIGN TRADE, SPECIFICALLY IN TERMS OF THE IMPORT POLICIES WHICH HAD BY THE LATE 1960'S WROUGHT, FOR ONE OF THE FEW TIMES IN MODERN EGYPTIAN HISTORY, ROUGH EQUILIBRIUM IN THE BALANCE OF PAYMENTS. THAT UNUSUAL SITUATION HAD CHANGED WITH A VENGEANCE BY 1974; BEGINNING THAT YEAR AND CONTINUING DOWN TO THE PRESENT, IMPORTS ROSE ON A FACTORIAL CALCULATION, WHILE EXPORTS INCREASED ONLY IN TERMS OF PERCENTAGES LESS THAN UNITY. IN OTHER WORDS, THE IMPORT BILL WENT UP BY MORE THAN TWO AND ONE-HALF TIMES BETWEEN 1973 AND 1976, WITH CURRENT ACCOUNT RECEIPTS RISING ONLY BY SOME 60 PER CENT. THE ORDERS OF MAGNITUDE INVOLVED ARE: EXPORTS OF \$1.0 BILLION AND IMPORTS OF \$1.7 BILLION IN 1973; EXPORTS OF \$1.6 BILLION, IMPORTS OF \$4.3 BILLION IN 1976. THE PICTURE ON MERCHANDISE TRADE ACCOUNT LOOKS MUCH THE SAME FOR THE PERIOD 1977-78, ALTHOUGH THE NUMBERS OF BOTH SIDES OF THE LEDGER CONTINUE TO INCREASE.

4. FORTUNATELY BY 1976-77, EARNINGS FROM THE PETROLEUM

SECTOR, INVISIBLES (MAINLY THE SUEZ CANAL) AND UNREQUITED TRANSFERS FROM EGYPTIAN WORKERS ABROAD HAD COME INTO PLAY, BUT THE EARNINGS GAP REMAINED MASSIVE, REQUIRING LARGE-SCALE OUTSIDE BALANCE OF PAYMENTS ASSISTANCE. THIS AID, ESSENTIALLY IN CASH FORM, WAS NOT FORTHCOMING IN AMOUNTS SUFFICIENT TO THE PURPOSE, HOWEVER, DUE TO A MARKED DECLINE IN ARAB BILATERAL ASSISTANCE IN 1976. IT TOOK A SERIOUS INTERNAL THREAT TO THE SADAT ADMINISTRATION--THE JANUARY 1977 RIOTS--TO BRING A FINANCIAL RESCUE OPERATION

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 16196 02 OF 05 010756Z
ACTION NEA-11

INFO OCT-01 ISO-00 EB-08 INR-10 L-03 PM-05 SS-15 SP-02
/055 W

-----126170 010955Z /11

R 301658Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0986

C O N F I D E N T I A L SECTION 02 OF 05 CAIRO 16196

STADIS////////////////////////////////////

ABOUT IN A TIMELY MANNER.

5. THE TROUBLE HAD BEEN THAT, WITH THE GREAT INCREASE IN IMPORTS AS A CONSEQUENCE OF THE OPEN DOOR, UNACCOMPANIED AS IT WAS BY ADEQUATE EARNINGS AND CASH AID, PARTICULARLY FROM THE ARAB OPEC COUNTRIES IN THE LATTER INSTANCE, A FLOCK OF DEBT SERVICE CHICKENS HAD ALL COME HOME TO ROOST BY THE END OF 1976/EARLY 1977. EGYPT HAD HAD TO PAY FOR ITS INCREMENTAL IMPORTS THROUGHOUT THE PREVIOUS THREE YEARS, OF COURSE, AND THE MEANS TO DO SO, ASIDE FROM EXPORT EARNINGS, ARAB CASH TRANSFERS, SUPPLIERS CREDITS AND OFFICIAL LOANS, IMPORTANTLY INCLUDED EXPENSIVE SHORT-TERM COMMERCIAL BANK CREDIT FACILITIES, USUALLY OF 180-DAY DURATION AT ANNUAL INTEREST RATES SOMETIMES APPROACHING 20 PER CENT. WITH FOREIGN EXCHANGE OBLIGATIONS INCLUDING THESE SHORT-TERM DEBTS, REACHING A LEVEL OF PERHAPS THREE-FOURTHS OF ANNUAL EXPORT EARNINGS BY 1976, THAT YEAR SAW THE DEVELOPMENT OF A SERIOUS ARREARS PROBLEM. FOREIGN EXCHANGE BECAME AVAILABLE TO MEET EXTERNAL OBLIGATIONS ONLY AFTER LONG, AND GRADUALLY LENGTHENING, DELAYS. SHORT-TERM DEBT PAYMENTS WERE MADE

90 DAYS AND MORE AFTER COMING DUE, SERIOUS DELAYS WERE INCURRED IN MEETING SUPPLIERS' CREDIT OBLIGATIONS AND, IN SOME CASES, OFFICIAL DEBTS WERE NOT PAID UNTIL MONTHS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 16196 02 OF 05 010756Z

AFTER SCHEDULED FOR REMITTANCE. NO ONE BLEW THE WHISTLE, DECLARING DEFAULT ON PAYMENTS; CREDITORS UNIVERSALLY TOOK THE POSITION THAT THEY WOULD EVENTUALLY BE PAID, AND MEANWHILE INTEREST CONTINUED TO ACCRUE, BUT EGYPT'S CREDITWORTHINESS QUITE NATURALLY TOOK A BEATING IN INTERNATIONAL FINANCIAL CIRCLES AND CERTAIN OF THE OFFICIAL CREDITORS BECAME RESTIVE ABOUT NON-PAYMENT.

6. THINGS REACHED SUCH A PASS BY LATE 1976 THAT SADAT AND PRIME MINISTER SALEM FELT COMPELLED TO CLEAN HOUSE AMONG ECONOMIC POLICY MAKERS IN THE CABINET, DESPITE THE POLITICAL CLAIMS TO OFFICE OF THOSE INVOLVED. A DEPUTY PRIME MINISTER FOR ECONOMIC AND FINANCIAL AFFAIRS, DR. KAISSOUNI, WAS BROUGHT IN AND NEW MINISTERS OF THE ECONOMY AND FINANCE WERE APPOINTED. THEY HAD THEIR HANDS FULL IMMEDIATELY.

7. THE LOW POINT IN THIS STORY OF RECENT EGYPTIAN ECONOMIC HISTORY WAS REACHED AT THE TURN OF THE YEARS 1976 AND 1977, WITH THE ABSOLUTE NADIR BEING MARKED BY THE LETHAL DISTURBANCES AT THAT TIME ARISING FROM A BASIC ECONOMIC ISSUE. THAT ISSUE--THE CONTINUATION OF SUBSIDIZED LOW PRICES ON A RANGE OF CONSUMER ITEMS--WAS ADDRESSED IN THE 1977 BUDGET PRESENTATION TO THE PEOPLES ASSEMBLY BY THE NEW ECONOMIC LEADERSHIP IN SUCH A HAMHANDED FASHION AS TO PROVOKE WIDESPREAD VIOLENCE, MUCH TO THE ASTONISHMENT OF MOST OF THE GOVERNMENT'S LEADERSHIP, DESPITE THE COMPARATIVELY MODEST OVERALL IMPACT ON THE BUDGETARY DEFICIT PROPOSED BY DR. KAISSOUNI (A SUM OF A COUPLE OF HUNDRED MILLION EGYPTIAN POUNDS WAS INVOLVED OUT OF A TOTAL SUBSIDY BILL, DIRECT AND INDIRECT, OF THREE TIMES THAT TOTAL). THE EFFORT TO REDUCE SUBSIDIES WAS DIRECTLY RELATED TO EGYPT'S
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 16196 02 OF 05 010756Z

FOREIGN EXCHANGE DIFFICULTIES IN THAT SEVERAL COMMODITIES HAD (AND HAVE) A SIGNIFICANT IMPORT COST CONTENT; THE SINGLE MOST COSTLY ITEM PROVIDED TO THE POPULACE, FOR EXAMPLE, WAS IMPORTED WHEAT. THE PRICE RISES ANNOUNCED ON CERTAIN CONSUMER COMMODITIES, WIDELY PUBLICIZED IN THE PRESS, WOULD INDEED HAVE HIT LOWER- TO MIDDLE-INCOME GROUPS

POCKETBOOKS WITH RESPECT TO SOME BASIC ITEMS. THE SUBSIDY CUTS WERE RESTORED IMMEDIATELY, HOWEVER, AND "OPERATION BAILOUT" TO BOLSTER SADAT WAS ON.

8. IN ACTUALITY, THE GULF ORGANIZATION FOR DEVELOPMENT IN EGYPT (GODE), A QUADRIPARTITE ARAB ENTITY CREATED IN THE SPRING OF 1976 BY SAUDI ARABIA, KUWAIT, QATAR AND THE UNITED ARAB EMIRATES TO FUNNEL SUPPORTING ASSISTANCE TO EGYPT ON A MULTILATERAL BASIS, HAD ALREADY (IN DECEMBER 1976) EXTENDED A SUBSTANTIAL LOAN AND HAD AGREED TO GUARANTEE ANOTHER COMMERCIAL BANK CONSORTIUM LOAN TO EGYPT, EACH TRANSACTION IN THE AMOUNT OF \$250 MILLION. FOLLOWING THE BUDGET CUT-INSPIRED THREAT TO POLITICAL STABILITY, HOWEVER, GODE IN THE FIRST HALF OF 1977 CAME UP WITH ANOTHER LOAN COMMITMENT OF NEARLY \$1.5 BILLION, VIRTUALLY ALL TO BE USED, IT TURNED OUT, TO RETIRE SHORT-TERM DEBT AND TO MEET THE BALANCE OF PAYMENTS GAP. THE IMF AND EGYPT ALMOST HASTILY REACHED AGREEMENT ON A ONE-YEAR STANDBY ARRANGEMENT, AFTER HAVING NEGOTIATED OFF AND ON FOR

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 16196 03 OF 05 020644Z
ACTION NEA-11

INFO OCT-01 ISO-00 EB-08 INR-10 L-03 PM-05 SS-15 SP-02
/055 W

-----005381 020647Z /11/12

R 301658Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0987

C O N F I D E N T I A L SECTION 3 OF 5 CAIRO 16196

STADIS////////////////////////////////////

C O R R E C T E D C O P Y T E X T

MONTHS ON WHAT HAD ORIGINALLY BEEN CONSIDERABLY STIFFER REFORM TERMS. THE U.S. GOVERNMENT ALSO CONTRIBUTED, UPPING THE COMMODITY IMPORT (I.E., BALANCE OF PAYMENTS SUPPORT) CONTENT OF ITS FISCAL YEAR 1977 A.I.D. PROGRAM TO \$440 MILLION. THE OIL-RICH ARAB STATES, NOTABLY SAUDI ARABIA AND KUWAIT, POSTPONED INDEFINITELY THE REPAYMENT OF OFFICIAL DEPOSITS COMING DUE IN 1977 TOTALLING SOME \$2.0 BILLION. THE WORLD BANK INDICATED IT WOULD CONTINUE

ITS PROJECT LOAN ACTIVITIES AT THE INCREASED LEVEL--\$250 MILLION A YEAR--ONLY RECENTLY REACHED. BY THE TIME OF THE FIRST IBRD-CHAIRLED CONSULTATIVE GROUP MEETING ON EGYPT IN MAY 1977, MOST OF THE PIECES THUS WERE IN PLACE FOR A DETERMINED EFFORT BY FRIENDS, NEIGHBORS AND DONORS (OTHER THAN THE ERSTWHILE COMMUNIST PROVIDERS OF AID) TO PULL EGYPT UP OUT OF THE FINANCIAL MIRE INTO WHICH IT HAD FALLEN.

9. AS WE ARE ALL AWARE, THESE VARIOUS AID MOVES, COALESCED AT THE PARIS IBRD MEETING, WERE SUCCESSFUL. BY THE THIRD QUARTER OF 1977, THANKS IN LARGE PART TO GODE MONIES, BUT ALSO DUE TO THE COMBINED THRUST OF THE SEVERAL AID DONOR-EGYPTIAN RELATIONS AND TO EGYPT'S OWN MOBILIZA-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 16196 03 OF 05 020644Z

TION OF CONVERTIBLE EARNINGS RESOURCES, THE COUNTRY WAS AGAIN CURRENT IN THE PAYMENT OF ITS BILLS. EGYPT'S CREDIT WORTHINESS WAS RESTORED ON THE INTERNATIONAL SCENE, AND EXTERNAL PAYMENTS CONTINUE MORE OR LESS CURRENT TO THIS DAY. (ANY DELAYS BEING ENCOUNTERED, FROM WHAT WE HEAR, ARE DUE ALMOST ENTIRELY TO BUREAUCRATIC SLOWNESS IN THE BANKING SYSTEM, NOT TO A ONCE-AGAIN CRITICAL LACK OF FOREIGN EXCHANGE.) A MOST WELCOME BREATHING SPELL WAS AFFORDED TO EGYPT SO AS TO BEGIN TO PUT ITS FINANCIAL HOUSE IN ORDER.

10. ALTHOUGH THAT HOUSE IS STILL DISORDERED, ESPECIALLY IN THE WAKE OF THE DISMISSAL IN MAY 1978 OF THE CHIEF ARCHITECT OF THE IMPROVED EXTERNAL FINANCIAL POSITION, DR. KAISSOUNI, IT WAS IN A VASTLY MORE RELAXED ATMOSPHERE THAT THE SECOND CONSULTATIVE GROUP MEETING TOOK PLACE AT PARIS JUST RECENTLY, IN MID-JUNE 1978. DELEGATES WHO HAD ATTENDED BOTH MEETINGS WERE STRUCK, WE UNDERSTAND, BY THE CHANGE IN TONE AND FOCUS BETWEEN 1977 AND 1978. SEEKING SHORT-TERM SOLUTIONS TO A CRISIS SITUATION WAS THE PRIME ORDER OF BUSINESS A YEAR AGO, WHEREAS THE MORE RECENT DONOR MEETING WAS CONCERNED LARGELY WITH MEDIUM-TERM DEVELOPMENTAL QUESTIONS SUCH AS STANDARDS FOR PROJECT FORMULATION, THE NEED FOR SETTING PRIORITIES AND THE CLEAR CONSEQUENCES OF UNBRIDLED POPULATION GROWTH. DUE ATTENTION WAS PAID TO IBRD ESTIMATES OF NEEDED BALANCE OF PAYMENTS ASSISTANCE OVER THE COMING YEAR AND TO THE IMF'S DISCUSSION, WITHOUT DETAIL ON ITS PROVISIONS, OF THE RECENTLY-ARRANGED EXTENDED FUND ARRANGEMENT WITH EGYPT DESIGNED TO FURTHER REFORM IN THE ECONOMIC SYSTEM. DELEGATIONS STRESSED THE NECESSITY OF CONTINUED PROGRAM--AS WELL AS PROJECT--AID, AND THE ABSENCE OF SPECIFIC FURTHER GODE COMMITMENTS WAS REMARKED IN CORRIDOR CONVERSATION.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 16196 03 OF 05 020644Z

BUT UNDERLYING ALL OF THE DELIBERATIONS WAS THE KNOWLEDGE THAT EGYPT'S UNCOVERED BALANCE OF PAYMENTS SUPPORT REQUIREMENTS (AMOUNTING TO ABOUT \$600 MILLION OVER THE REST OF THIS YEAR) ARE REDUCED FROM THOSE IN RECENT YEARS AND THE PRESUMPTION THAT THE NEEDED AMOUNT WILL BE FORTHCOMING, PROBABLY FROM GODE. (THIS LAST VITAL POINT IS AS YET UNRESOLVED, HOWEVER; GODE HAS NOT THUS FAR MADE ANY NEW COMMITMENTS OF AID, EITHER PROGRAM OR PROJECT. EGYPT LIKELY WILL BE FORCED BACK INTO THE SHORT-TERM MONEY MARKET FOR IMPORT FINANCING IF GODE MONIES ARE NOT FORTHCOMING, THUS RAISING THE SPECTRE OF ARREARS ONCE AGAIN.) MEDIUM-TERM DEVELOPMENT MATTERS, PARTICULARLY THE POSSIBILITIES FOR MEANINGFUL PROJECT FINANCING AND THE STATE OF THE ART IN THE EGYPTIAN PLANNING PROCESS, RECEIVED THE LION'S SHARE OF ATTENTION AT THE MEETING.

11. THE CONTRAST BETWEEN THE CRISIS-RIDDEN ATMOSPHERE OF MID-1977 AND THE DEVELOPMENT-BUSINESS-AS-USUAL FOCUS OF THE MID-1978 CONSULTATIVE GROUP DISCUSSIONS ASSUREDLY IS SYMPTOMATIC OF A REAL CHANGE FOR THE BETTER IN EGYPT'S ECONOMIC POSITION VIS-A-VIS THE REST OF THE WORLD. THE VERY AMOUNT OF ATTENTION DEVOTED BY SUCH NUMBERS OF DONOR STATES AND ORGANIZATIONS, HOWEVER, IN EQUALLY STRONG TERMS DEMONSTRATES THAT SEVERE PROBLEMS IN THE ECONOMY REMAIN TO BE OVERCOME. ENOUGH, THEREFORE, ON THE BRIGHT SIDE, AT LEAST COMPARATIVELY, OF THE PICTURE.

12. THE EGYPTIAN ECONOMY IS STILL MAINLY A CENTRALLY-DIRECTED, PUBLIC SECTOR-ORIENTED SYSTEM CLOSELY REGULATED AND PLANNED AT ALL LEVELS ABOVE THE FARM OPERATOR AND THE VERY SMALL COMMERCIAL ENTERPRISE--THIS NOTWITHSTANDING THE INITIATION OF THE OPEN DOOR POLICY'S DELIBERATE MOVE TOWARD A MIXED ECONOMY WITH A GREATER ROLE FOR THE PRIVATE SECTOR.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 16196 04 OF 05 010817Z

ACTION NEA-11

INFO OCT-01 ISO-00 EB-08 INR-10 L-03 PM-05 SS-15 SP-02

/055 W

-----126526 010956Z /12

R 301658Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0988

C O N F I D E N T I A L SECTION 04 OF 05 CAIRO 16196

STADIS//////////

AND THE ECONOMY IS POORLY DIRECTED, INEFFICIENTLY REGULATED AND INEPTLY PLANNED--THIS DESPITE SOME TWO DECADES OF EXPERIENCE WITH A SOCIALIST MODEL UNDER NASSER AND THE SOVIETS AS TUTORS. PLANNING IS SIMPLY NOT DONE WELL, EITHER IN CONCEPTUALIZATION OR IMPLEMENTATION. THE BUREAUCRATIC ELEPHANT LABORS TO BRING FORTH A PLANNING MOUSE IN TERMS OF USABLE PROJECT PROPOSALS, INVESTMENT SCHEDULES, SECTORAL AND PROJECT PRIORITIES, AND FORECASTS OF RESOURCE NEEDS. DIRECTION OF THE ECONOMY IS AT ONCE OVER-SYSTEMIZED AND INEFFICIENT; PRICING DECISIONS, FOR EXAMPLE, ESPECIALLY IN PUBLIC SECTOR PRODUCTION ACTIVITIES, OFTEN ARE MADE FAR LESS ON ECONOMIC THAN VAGUELY-UNDERSTOOD POLITICAL OR SOCIAL WELFARE GROUNDS. PROJECTS ARE UNDERTAKEN ON THE BASIS OF AVAILABLE EXTERNAL FINANCING, BUT FREQUENTLY ARE DROPPED OR ALLOWED TO LAG DUE TO THE LACK OF FURTHER CONVERTIBLE CURRENCY FUNDS OR, IMPORTANTLY LOCAL COST FINANCING. (MINISTER OF PLANNING MEGUID, AT THE RECENT CONSULTATIVE GROUP MEETING, ADMITTED THAT 70 PER CENT OF PLANNED INVESTMENT IS TIED UP IN PROJECTS ALREADY UNDERWAY IN ONE STAGE OF COMPLETION OR ANOTHER.) MEDIUM-TERM PLANNING, AS EXEMPLIFIED BY THE DRAFT FIVE YEAR PLAN 1978-82 COMPLETED LAST YEAR, LARGELY CONSISTS OF A COMPILATION OF DESIRED PROJECT ACTIVITIES WITH LITTLE REGARD TO ECONOMIC FEASIBILITY OR FUNDING PRACTICALITIES; CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 16196 04 OF 05 010817Z

THE LONG-AWAITED DRAFT PLAN THEREFORE IS NOT VIEWED AS A SERIOUS DOCUMENT BY POTENTIAL DONORS. THE DETERMINATION OF PRIORITIES, AS NOTED BY MINISTER OF TRANSPORT AND COMMUNICATIONS ABU TALEB AT THE PARIS MEETING, IS AS OFTEN AS NOT BASED ON PROJECT FUNDING POSSIBILITIES, RATHER THAN ON AN ASSESSMENT OF RELATIVE SECTORAL AND SUBSECTORAL DEVELOPMENTAL NEEDS; IF FUNDING IS MADE AVAILABLE FOR A GIVEN PROJECT, IN OTHER WORDS, IT BECOMES OF THE "HIGHEST" PRIORITY.

13. GIVEN THE LEGACY OF YEARS OF "ARAB SOCIALISM" AND THE PUBLIC SECTOR BENT STILL OF THE GOVERNMENT, POORLY-DONE PLANNING OF ECONOMIC ACTIVITIES IS CLEARLY AN IMPEDIMENT TO SUCCESSFUL DEVELOPMENT. VERY REAL CONSTRAINTS ON ECONOMIC ADVANCE SHOULD NOT BE UNDERSTATED, HOWEVER. A LONG LIST OF PROBLEM AREAS COULD BE CITED, BUT PARAMOUNT

IN THIS REGARD PROBABLY ARE THE ADVERSE MAN/ARABLE LAND RATIO; THE SHORTAGE OF NATURAL RESOURCES (EXCEPTING THE PROMISING PETROLEUM PROSPECTS, WHICH HOWEVER DO NOT SHOW SIGNS OF EGYPT EVER RIVALLING LIBYA, FOR EXAMPLE, AS A PRODUCER); THE SERIOUSLY DECREPIT STATE OF THE COUNTRY'S INFRASTRUCTURE (WHICH WILL REQUIRE AN INFUSION OF EXTREMELY EXPENSIVE INVESTMENT AS A PRECONDITION TO OTHER MORE DIRECTLY PRODUCTIVE PROJECTS); AND LAST BUT NOT LEAST, THE DEVELOPMENTALLY INHIBITING ATTITUDES BORDERING ON FATALISM OF THE EGYPTIAN PEOPLE WHICH ARE DERIVED FROM THE MUSLIM RELIGION. THE FIRST AND LAST OF THE ABOVE POINTS ARE INTERRELATED: POPULATION PRESSURES ON LIMITED LAND AND SCARCE RESOURCES ARE RISING INEXORABLY, UNCHECKED BY ANY SIGNIFICANT EFFORTS ON THE PART OF THE GOVERNMENT OR BY ANY AS YET DISCERNIBLE ATTITUDINAL CHANGES ON THE PART OF VERY MANY EGYPTIANS THEMSELVES. THE RISE OF POPULATION PROMISES TO VITIATE MUCH OF THE PROGRESS THAT COULD BE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 16196 04 OF 05 010817Z

EXPECTED TO TAKE PLACE OVER THE COMING YEARS, ASSUMING OTHER FACTORS IN THE ECONOMY PROVIDE ON BALANCE A FORWARD IMPETUS. ALL DONORS, IF NOT THE EGYPTIAN GOVERNMENT, RECOGNIZE THE NEED TO ADDRESS THE POPULATION PROBLEM AS AN ABSOLUTE IMPERATIVE IN THE DEVELOPMENT OF EGYPT.

14. WASHINGTON AGENCIES ARE ALL TOO FAMILIAR WITH THESE SETS OF DIFFICULTIES AND FURTHER ELABORATION IS NOT NEEDFUL HERE. TWO ADDITIONAL WELL-RECOGNIZED PROBLEMS BEARING ON DEVELOPMENT POSSIBILITIES ARE WORTHY OF NOTE, HOWEVER. THESE ARE THE TWIN BURDENS ON THE GOVERNMENT EXCHEQUER OF CONSUMER SUBSIDIES AND DEFENSE EXPENDITURES. WHILE NEITHER IS AN IMMUTABLE PHENOMENON SUCH AS THE NUMBER OF PEOPLE OR THE AMOUNT OF LAND WITHIN EGYPT'S BORDERS, BOTH HAVE ASSUMED THE STATUS OF NEAR-FIXTURES ON THE FINANCIAL SCENE AND THE REDUCTION OF EITHER SUBSIDY OR DEFENSE COSTS, SO AS TO PERMIT A DIVERSION OF A PORTION OF THOSE RESOURCES INTO DEVELOPMENT, WILL BE DIFFICULT. POLITICAL SENSITIVITIES AND NATIONAL SECURITY CONSIDERATIONS INTERVENE TO AN OVERPOWERING EXTENT, EVEN THOUGH THE DIRECT COST OF THE NATION, AMOUNTING TO THE EQUIVALENT OF AT LEAST \$2.5 BILLION PER YEAR, COULD MAKE A GREAT DIFFERENCE IF DEVOTED IN PART TO PRODUCTIVE PURPOSES. SCALING DOWN SUBSIDIES, THE TREMENDOUS RISE IN THE COST WHICH BEGAN, IT SO HAPPENS, WITH THE COMMENCEMENT OF THE OPEN DOOR FOUR YEARS AGO, CAN BE ACCOMPLISHED SUCCESSFULLY ONLY THROUGH A CAREFULLY ORCHESTRATED SET OF PRICE AND WAGE POLICIES, AND THEN ONLY AT A RISK IN TERMS OF DOMESTIC POLITICAL STABILITY. A SIGNIFICANT REDUCTION OF MILITARY EXPENDITURES FOR THE DIRECT SUPPORT OF EGYPT'S ARMY SIMPLY CANNOT BE ACCOMPLISHED AT ALL IN TH*

ABSENCE OF AN ACCOMMODATION WITH ISRAEL UNLESS SADAT WERE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 16196 05 OF 05 010942Z
ACTION NEA-11

INFO OCT-01 ISO-00 EB-08 INR-10 L-03 PM-05 SS-15 SP-02
/055 W

-----127696 010956Z /14

R 301658Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0989

C O N F I D E N T I A L SECTION 05 OF 05 CAIRO 16196

STADIS////////////////////////////////////

WILLING TO TAKE SEEMINGLY SUICIDAL POLITICAL-MILITARY
CHANCES WITH THE CONTINUATION OF HIS REGIME. THESE HEAVY
DRAINS ON THE WEALTH OF THE NATION THUS CERTAINLY WILL BE
BUILT INTO THE SYSTEM OVER AT LEAST THE NEXT YEAR OR TWO,
AND DEVELOPMENT EFFORTS WILL PERFORCE TAKE PLACE WITHIN
THE PARAMETERS OF WHAT IS LEFT OVER IN MOBILIZING RE-
SOURCES.

15. EGYPT IN SUM IS A MIDDLING-POOR UNDERVELOPED
COUNTRY WITH A FEW SECTORS OF THE ECONOMY SHOWING SIGNS OF
SUSTAINED LIFE, BUT WITH MANY PROBLEMS WHICH WILL SLOW,
IF NOT FRUSTRATE, DEVELOPMENT EFFORTS. COUNTING HEAVILY
ON THE PLUS SIDE, HOWEVER, IS THE EXTENT OF FOREIGN
ASSISTANCE BEING OFFERED OR IN THE WINGS. NOT ONLY HAS
THIS EXTERNAL AID BEEN INSTRUMENTAL IN BRINGING ABOUT
THE REMARKABLE IMPROVEMENT IN EGYPT'S FOREIGN EXCHANGE
POSITION IN THE PAST YEAR, IN ANOTHER FORM--PROJECT
FINANCING--IT PROVIDES CURRENTLY OR PROSPECTIVELY THE
WHEREWITHAL TO UNDERTAKE CRITICALLY IMPORTANT
ELEMENTS OF THE INVESTMENT NEEDED TO ENGENDER CONTINUED
GROWTH. MUCH UNSPENT MONEY IS IN THE PIPELINE FOR
PROJECTS AT PRESENT (MORE THAN \$700 MILLION COMMITTED BY
THE WORLD BANK ALONE), NOT TO SPEAK OF THE PROSPECTS FOR
FOREIGN EXCHANGE FINANCING FROM GODE MEMBERS FOR THEIR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 16196 05 OF 05 010942Z

LONG-SOUGHT-AFTER PROJECT PURPOSES. NOW THAT BALANCE OF PAYMENTS AND DEBT SERVICING DIFFICULTIES HAVE BEEN BROUGHT UNDER CONTROL FOR THE FORESEEABLE FUTURE (PROVIDED--AND THIS IS AN IMPORTANT PROVISOR--CODE PROVES AMENABLE TO FURTHER CASH ASSISTANCE OR FUNDING OF IMPORTS, ALBEIT AT A REDUCED LEVEL), THE PRINCIPAL CONSTRAINTS ON THE DEVELOPMENT-ORIENTED PROJECT ACTIVITIES SO BADLY NEEDED BY THE ECONOMY ARE TWO: A) THE LACK OF SUFFICIENT LOCAL COST FINANCING, AND B) INADEQUATE PROJECT FORMULATION AND EVALUATION ON AN ORDERED PRIORITY BASIS. BOTH ARE OBVIOUSLY RESPONSIBILITIES OF EGYPTIAN AUTHORITIES ABOVE ALL; OUTSIDE DONORS AND ADVISORS CAN ADDRESS THOSE PROBLEMS ONLY AT THE MARGIN. THE EGYPTIAN ECONOMIC LEADERSHIP ITSELF WILL HAVE TO DEVISE MEANS TO MOBILIZE THE COUNTRY'S RESOURCES, WITHIN THE REALM OF THE POSSIBLE IN LIGHT OF DOMESTIC POLITICAL AND EXTERNAL SECURITY REQUIREMENTS, AND TO PLAN MORE EFFECTIVELY THE USE OF THOSE RESOURCES AND THE LARGE AMOUNTS OF FOREIGN AID AVAILABLE OR IN VIEW. FOREIGNERS CAN HELP, BUT THEY CANNOT DO THE JOB, ANY MORE THAN OUTSIDERS CAN IN ANY MEANINGFUL SENSE DEVELOP ANY COUNTRY WITHOUT A WIDESPREAD COMMITMENT TO ECONOMIC ADVANCE ON THE PART OF THE INDIGENOUS POPULACE.

16. THE IMPLICATIONS FOR THE U.S. OF EGYPT'S EMERGENCE FROM THE FINANCIAL THICKETS ARE LARGELY POSITIVE. WE NO LONGER ARE INVOLVED IN A "PASSING THE HAT" EXERCISE AS IN 1975 AND 1976. WE NO LONGER HAVE CLEAR REASON TO BE CONCERNED ABOUT IMMEDIATE THREATS ON THE DOMESTIC POLITICAL FRONT AS IN EARLY 1977. ECONOMIC CRISES WHICH IMPINGE ON THE POLITICAL SCENE DO NOT LOOM IN THE NEAR FUTURE. MEDIUM-TERM DEVELOPMENT QUESTIONS WILL, FROM ALL CURRENT INDICATIONS, BE FOREMOST OVER THE NEXT YEAR OR SO. THESE VERY QUESTIONS, HOWEVER, INVOLVING LONGER-HAUL COMMITMENTS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 16196 05 OF 05 010942Z

OF U.S. SUPPORT, WILL REQUIRE THAT THE U.S. GOVERNMENT'S DECISIONS ON ECONOMIC ASSISTANCE BE CONSCIOUSLY TAKEN IN THE CONTEXT OF AN EGYPT SAVED FROM IMMINENT RUIN AND NOW BEGINNING THE PROCESS OF PULLING ITSELF BACK UP EVEN DEVELOPMENTALLY WITH ITS PEERS IN THE WORLD ECONOMIC COMMUNITY. WE CAN TAKE SATISFACTION FROM THIS STATE OF AFFAIRS AS FAR AS OUR POLITICAL INTERESTS IN EGYPT AND THE MIDDLE EAST ARE CONCERNED, BUT WE ARE NOW FACED WITH SOMETHING ESSENTIALLY DIFFERENT FROM A CRISIS SITUATION DEMANDING ALL-OUT SUPPORT IN THE ECONOMIC REALM SO AS TO SAFEGUARD THE PROSPECTS FOR A PEACE SETTLEMENT. ALTHOUGH A MEASURE OF CONTINUED SUPPORT SPECIFICALLY FOR THAT PURPOSE LIKELY WILL CONTINUE TO BE NEEDED, WE ARE ENTERING A PERIOD IN WHICH DECISIONS ON THE AMOUNT AND KIND OF U.S.

AID WILL NECESSARILY BE BASED MORE THAN HERETOFORE ON
CONSIDERATIONS AS TO HOW DEEPLY WE WILL WISH TO BECOME IN-
VOLVED IN AND RESSONSIBLE FOR EGYPT IN "PURELY" ECONOMIC
DEVELOPMENT TERMS. POLITICAL QUESTIONS WILL REMAIN OVER-
RIDING IN IMPORTANCE UNTIL AN ACCOMMODATION WITH ISRAEL IS
REACHED, BUT OUR DAY-TO-DAY OPERATIONAL ASSISTANCE
ACTIVITIES WILL INCREASINGLY BEAR ON EGYPTIAN ECONOMIC
DEVELOPMENT PER SE. EILTS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 jun 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978CAIRO16196
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780272-0393
Format: TEL
From: CAIRO
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978065/aaaaadmo.tel
Line Count: 610
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 08b85087-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 12
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 13 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2316489
Secure: OPEN
Status: NATIVE
Subject: THE EGYPTIAN ECONOMIC SCENE - A RECAPITULATION AND - ASSESSMENT
TAGS: EGEN, EG
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/08b85087-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014